

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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In the Matter of a Summary
Investigation Into IntraLATA
Toll Access Compensation for
Local Exchange Carriers
Providing Telephone Service
Within the State of Minnesota

ISSUE DATE: June 23, 1988

Docket Nos.:

P-999/CI-85-582
P-999/CI-87-695
P-999/CI-87-696
P-999/CI-87-697
P-999/CI-87-698

ORDER CLARIFYING
NORTHWESTERN BELL
TELEPHONE COMPANY'S TEST
YEAR FOR PURPOSES OF
COMPLIANCE FILING

BACKGROUND AND PROCEDURAL HISTORY

Northwestern Bell Telephone Company (NWB) submitted a proposal to the Minnesota Public Utilities Commission (the Commission) requesting authority to use 1987 test year intrastate access minutes of use to calculate its intrastate Carrier Common Line Charge (CCLC) as part of its compliance filing in this matter. NWB calculated a hypothetical CCLC based on 1987 test year intrastate access minutes of use. This CCLC is shown on Attachment A of this Order.

NWB also provided the Commission with hypothetical CCLCs calculated on the test years in In the Matter of a Summary Investigation into Intrastate Switched Access Charges Proposed by Northwestern Bell Telephone Company for its Minnesota Customers, Docket No. P-421/CI-85-352 (February 24, 1986) ("352") and In the Matter of a Petition by the U.S. Department of Defense, the General Services Administration, and All Other Federal Executive Agencies of the United States Challenging the Reasonableness of the Rates Charged by Northwestern Bell Telephone Company, Docket No. P-421/CI-86-354 ("354"). Attachment A shows hypothetical CCLC rate comparisons under the three different test year methods. For its proposal, NWB assumed a reduction in CCLC revenues of \$2,000,000 to reflect reductions in access expenses NWB would pay to the non-NWB local exchange carriers (NBECs) under the Designated Carrier Plan (DCP) approved by the Commission in this case.

In its November 2, 1987 Order in this proceeding, the Commission allowed NWB to recover a \$104 million intrastate access revenue requirement using the tariffed access rates approved by the Commission in "352". Under the November 2, 1987 Order, the CCLC was to be residually priced and modified to reflect NWB's access expense reductions.

In its January 11, 1988 Reconsideration Order in this case, the Commission ordered NWB to maintain its interservice rate design and make no additional changes in the CCLC. The Commission would address the interservice rate relationships when NWB's overall revenue requirement was determined in "354".

It was expected that "354" would not be concluded until after the DCP was in place. In "354" the Commission would establish NWB's overall revenue requirement and scrutinize NWB's intrastate access revenue requirement. Prospective adjustments, if necessary, could be made to NWB's intrastate access rates after "354" was decided.

However, "354" was concluded prior to the start of the DCP when a settlement was reached among the parties. The settlement proposed an overall earnings reduction, but did not provide any evidence on NWB's intrastate access revenue requirement. No rate design changes were made because the case dealt exclusively with financial issues.

In adopting the settlement, the Commission ordered a rate reduction of \$24,500,000 to be applied on a pro-rata basis to NWB's local exchange services and the CCLC. As a result of the settlement, NWB's CCLC revenues were reduced by approximately \$5,000,000 to their present level. NWB's present CCLC rates are shown on Attachment A.

The Commission has reviewed NWB's proposal, the hypothetical CCLC rates contained in Attachment A to this Order and the calculations for these rates. The Commission now makes the following findings and conclusions:

COMMISSION FINDINGS AND CONCLUSIONS

The Commission finds that NWB has discussed its proposal to use a 1987 test year base for calculating its CCLC with its largest access customer, AT&T Communications of the Midwest (AT&T). AT&T has no objection to a NWB CCLC rate based on a 1987 test year, although under NWB's hypothetical calculations, the rate is higher than it would have been using the "352" test year base required by the Commission's November 2, 1987 Order.

The Commission finds that there are some advantages to using a 1987 test year. Adopting a 1987 test year for NWB would be consistent with the Commission's requirement that all NBECs use a 1987 test year for their respective compliance filings in this case. Also NWB's CCLC would be calculated using the most recent actual data available for NWB's intrastate access minutes.

The Commission finds, however, that using the 1987 test year will inflate NWB's intrastate access

revenue requirement. This is true for two reasons.

First, unlike the NBEC's CCLC revenue requirements which are based on their Code of Federal Regulation's Part 67 non-traffic sensitive (NTS) costs, NWB's CCLC is calculated residually and has no identifiable relationship to NWB's NTS costs. It is the result of subtracting NWB's intrastate access revenue requirement from the revenues generated by NWB's traffic sensitive intrastate access rates and intrastate access ancillary service rates.

Second, NWB's intrastate access revenue requirement isn't a true revenue requirement. It is a number that represents actual revenues generated by NWB's intrastate access charges. Although NWB's access charges are set by the Commission, the number representing its intrastate access "revenue requirement" can vary depending on the volume of intrastate access minutes generated each year on NWB's access network.

The Commission does not find the traffic sensitive portion of NWB's intrastate access "revenue requirement" (that generated by traffic sensitive access rates) as troubling as the CCLC portion because traffic sensitive rates are based on cost. Traffic sensitive costs vary directly with access minutes of use.

The CCLC was designed to recover NTS costs, i.e., costs which do not vary significantly with usage and are generally stable. However, NWB's CCLC "revenue requirement" does not necessarily correspond to associated NTS costs and, because it is calculated residually is not a stable number. It varies with the volume of intrastate access minutes generated and has a nonspecified relationship to NWB's NTS costs. Thus, interexchange carriers which pay NWB's CCLC may be overcharged or undercharged relative to the actual NTS costs incurred by NWB.

NWB's 1987 test year incorporates more intrastate access minutes of use than the "352" test year. If NWB were allowed to use its 1987 test year intrastate access minutes of use to calculate its CCLC, the Commission finds that NWB's intrastate access revenue requirement would increase over that of the "352" test year. The Commission finds that an intrastate access revenue requirement based on 1987 test year levels has not been examined in any formal proceeding before the Commission and thus has not been reviewed to determine its relationship to NWB's actual costs of providing access services.

The Commission finds that using the "354" base to calculate NWB's CCLC would come closest to a reasonable proxy for a NWB CCLC "revenue requirement." This is true only in the sense that the "354" case scrutinized NWB's earnings and reduced NWB's existing intrastate access "revenue requirement" by reducing the CCLC "revenue requirement." In addition, the "354" test year numbers are more recent than the "352" test year numbers the Commission required NWB to use under the November 2, 1987 "582" Order.

For the reasons discussed above, the Commission concludes that it will require NWB to use the "354" test year base for the purposes of calculating its CCLC in NWB's "582" compliance filing.

ORDER

1. For the purposes of calculating its Carrier Common Line Charge as part of its compliance filing in Docket No. P-999/CI-85-582, Northwestern Bell Telephone Company shall use the intrastate access minutes of use reflected in the test year base from Docket No. P-421/CI-86-354.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)